

APPLICATION OF

Paramount International Telecommunications. Inc. d/b/a R Network

EXHIBIT 1

Articles of Incorporation

FILED
IN THE OFFICE OF THE
SECRETARY OF STATE OF THE
STATE OF NEVADA

OCT 18 1995

DEAN HELLER SECRETARY OF STATE

No. 21793-96

ARTICLES OF INCORPORATION

OF

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC.

FIRST. The name of the corporation is:

PARAMOUNT ~~INTERNATIONAL~~ TELECOMMUNICATIONS, INC.

SECOND. Its registered office in the State of Nevada is located at 2533 North Carson Street, Carson City, Nevada 89701. That this Corporation may maintain an office, or offices, in such other place within or without the State of Nevada as may be from time to time designated by the Board of Directors, or by the By-Laws of said Corporation, and that this Corporation may conduct all Corporation business of every kind and nature, including the holding of all meetings of Directors and Stockholders, outside the State of Nevada as well as within the State of Nevada.

THIRD. The objects for which this Corporation is formed are: To engage in any lawful activity, including, but not limited to the following:

(A) Shall have such rights, privileges and powers as may be conferred upon corporations by any existing law.

(B) May at any time exercise such rights, privileges and powers, when not inconsistent with the purposes and objects for which this corporation is organized.

16180

C) Shall have power to have succession by its corporate name for the period limited in its certificate or articles of incorporation, and when no period is limited, perpetually, or until dissolved and its affairs wound up according to law.

(D) Shall have power to sue and ~~be~~ sued in any court of law or equity.

(E) Shall have power to make contracts.

(F) Shall have power to hold, purchase and convey real and personal estate and to mortgage or lease any such real and personal estate ~~with~~ its franchises. The power to hold real and personal estate shall include the power to take the same by devise or bequest in the State of Nevada, or ~~in~~ any other ~~state~~, territory or country.

(G) Shall have power to appoint such officers and agents as the affairs of ~~the~~ corporation shall require, and to allow ~~them~~ suitable compensation.

(H) Shall have power to make By-Laws not inconsistent with the constitution or laws of ~~the~~ United States, or of the State of Nevada, for the management, regulation and government of its affairs and property, ~~the~~ transfer of its stock, ~~the~~ transaction of its business, and the calling and holding of meetings of its stockholders

(I) Shall have power to wind up and dissolve itself, or be wound up or dissolved.

(J) Shall have power to adopt and use a common ~~seal~~ or stamp, and ~~alter~~ the same at pleasure. The use of a seal or stamp by the corporation on any corporate documents is not necessary. The corporation may use a ~~seal~~ or stamp, if it desires, but such use or ~~nonuse~~ shall not in any way affect ~~the~~ legality of the document.

(K) Shall have ~~power~~ to borrow money and contract debts when necessary for ~~the~~ transaction of its business, or for the exercise of its corporate rights, privileges or franchises,

or for any other lawful purpose of its incorporation; to issue bonds, promissory notes, bills of exchange, debentures, and other obligations and evidences Of indebtedness, payable at a specified time or times, or payable upon the happening of a specified event or events, whether secured by mortgage, pledge or otherwise, or unsecured, for money borrowed, or in payment for property purchased, or acquired, or for any other lawful object.

(L) Shall have power to guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of the shares of the capital stock of, or any bonds, securities or evidences of the indebtedness created by, any other corporation or corporations of the State of Nevada, or any other state or government, and, while owners of such stock, bonds, securities or evidences of indebtedness, to exercise all the rights, powers and privileges of ownership, including the right to vote, if any.

(M) Shall have power to purchase, hold, sell and transfer shares of its own capital stock, and use therefor its capital, capital surplus, surplus, or other property or fund.

(N) Shall have power to conduct business, have one or more offices, and hold, purchase, mortgage and convey real and personal property in the State of Nevada, and in any of the several states, territories, possessions and dependencies of the United States, the District of Columbia, and any foreign countries.

(O) Shall have power to do all and everything necessary and proper for the accomplishment of the objects enumerated in its certificate or article-s of incorporation. or any amendment thereof, or necessary or incidental to the protection and benefit of the corporation, and, in general, to carry on any lawful business necessary or incidental to the attainment of the

objects of the corporation, whether or not such business is similar in nature to the objects set forth in the certificate or articles of incorporation of the corporation, or any amendment thereof.

(P) Shall have power to make donations for the public welfare or for charitable, scientific or educational purposes.

(Q) Shall have power to enter into partnerships, general or limited, or joint ventures, in connection with any lawful activities. as may be allowed by law.

FOURTH. That the total number of common stock authorized that may be issued by the 'Corporation is TWENTY FIVE THOUSAND (25,000) shares of stock without nominal par value and no other class of stock shall be authorized: Said shares may be issued by the corporation from time to time for such considerations as may be fixed by the Board of Directors.

FIFTH. The governing board of this corporation shall be known as directors, and the number of directors may from time to time be increased or decreased in such manner as shall be provided by the By-Laws of this Corporation, providing that the number of directors shall not be reduced to fewer than one (1).

The name and post office address of the first board of Directors shall be one (1) in number and listed as follows:

<u>NAME</u>	<u>POST OFFICE ADDRESS</u>
Robert Seligman	2533 North Carson Street Carson City. Nevada 89706

SIXTH. The capital stock, after the amount of the subscription price, or par value, has been paid in, shall not be subject to assessment to pay the debts of the corporation.

SEVENTH. The name and post office address of the Incorporator signing the Articles of Incorporation is as follows:

<u>NAME</u>	<u>POST OFFICE ADDRESS</u>
Robert Seligman	2533 North Carson Street Carson City, Nevada 89706

EIGHTH. The resident agent for this corporation shall be:

LAUGHLIN ASSOCIATES, INC.

The address of said agent, and, the registered or **statutory** address of this corporation in the state of Nevada; **shall** be:

2533 North Carson Street
Carson City, Nevada 89706

NINTH. The corporation is to have **perpetual** existence.

TENTH. In furtherance **and** not in limitation of the **powers** conferred by statute, the Board of **Directors** is expressly authorized:

Subject to the **By-Laws**, if any, adopted by the Stockholders, to make, alter or amend the By-Laws of the Corporation.

To **fix** the amount to **be** reserved as 'working capital over and above its capital stock paid in; to authorize and **cause** to be executed, mortgages and liens upon the real **and** -personal property of this Corporation.

By resolution passed by a majority of the whole Board, to designate one (1) or more committees, each committee to consist of one or more of the Directors of the **Corporation**.

which, to the extent provided in the resolution, or in the By-Laws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation. Such committee, or committees, shall have such name, or names, as may be stated in the By-Laws of the Corporation, or as may be determined from time to time by resolution adopted by the Board of Directors.

When and as authorized by the affirmative vote Of the Stockholders holding stock entitling them to exercise at least a majority of the voting power given at a Stockholders meeting called for that purpose, or when authorized by the written consent of the holders of at least a majority of the voting stock issued and outstanding, the Board of Directors shall have power and authority at any meeting to sell, lease or exchange all of the property and assets of the Corporation, including its good will and its corporate franchises, upon such terms and conditions as its board of Directors deems expedient and for the best interests of me Corporation.


ELEVENTH. No shareholder shall be entitled as a matter of right to subscribe for or receive additional shares of any class of stock of the Corporation, whether now or hereafter authorized, or any bonds, debentures or securities convertible into stock, but such additional shares of stock or other securities convertible into stock may be issued or disposed of by the Board of Directors to such persons and on such terms as in its discretion it shall deem advisable.

TWELFTH. No director or officer of me Corporation shall be personally liable to the Corporation or any of, its stockholders for damages for breach of fiduciary duty as a director or officer involving any act or omission of any such director or officer; provided, however, that the foregoing provision shall not eliminate or limit the liability of a director or

officer (i) for acts or omissions which involve intentional misconduct, fraud or a knowing violation of law, or (ii) the payment of dividends in violation of Section 78.300 of the Nevada Revised Statutes. Any repeal or modification of this ^{Article} by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director or officer of the Corporation for acts or omissions prior to such repeal or modification.

THIRTEENTH. This Corporation reserves the right to amend, alter, change or repeal any provision contained in the Articles of Incorporation, in the manner now or hereafter prescribed by statute, or by the Articles of Incorporation, and all rights conferred upon Stockholders herein are granted subject to this reservation.

I, **THE UNDERSIGNED**, being the Incorporator hereinbefore named for the purpose of forming a Corporation pursuant to the General Corporation Law of the State of Nevada, do make and file these Articles of Incorporation, hereby declaring and certifying that the facts herein stated are true, and accordingly have hereunto set my hand this 18th day of October 1996.

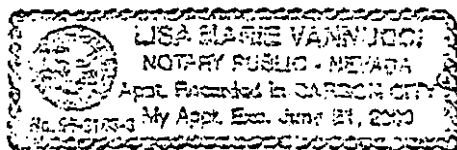

Robert Seligman

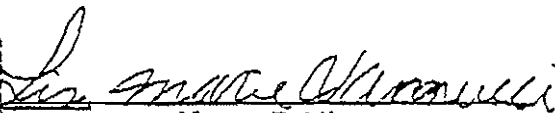
STATE OF NEVADA)
) ss:
CARSON CITY)

On this 18th day of October, 1996 in Carson City, Nevada,
before me, the undersigned, a Notary Public in and for Carson City, State of
Nevada, personally appeared:

Robert Seligman


Known to me to be the person whose name is subscribed to the foregoing
document and acknowledged to me that he executed the same.




Notary Public

I, Laughlin Associates, Inc. hereby accept as Resident Agent for the previously
named Corporation.

October 18, 1996
Date


Executive Vice President

APPLICATION OF

Paramount International Telecommunications, Inc. d/b/a R Network

EXHIBIT 2

Authority to Operate in Illinois

Number 6085-529-3

State of Illinois
Office of
The Secretary of State

Whereas, APPLICATION FOR CERTIFICATE OF AUTHORITY TO TRANSACT
BUSINESS IN THIS STATE OF
PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC.
INCORPORATED UNDER THE LAWS OF THE STATE OF NEVADA HAS BEEN FILED
IN THE OFFICE OF THE SECRETARY OF STATE AS PROVIDED BY THE BUSINESS
CORPORATION ACT OF ILLINOIS, IN FORCE JULY 1, A.D. 1984.

Now Therefore, I, Jesse White, Secretary of State of the State of Illinois, by virtue of the powers vested in me by law, do hereby issue this certificate and attach hereto a copy of the Application of the aforesaid corporation.

In Testimony Whereof, I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, at the City of Springfield, this 7TH day of JANUARY A.D. 2000 and of the Independence of the United States the two hundred and 24TH



Jesse White

Secretary of State

Jan. 12, 2000 10:54PM

217 522 3570

No. 65880 F. 12/14

Form **BCA-4.15/**
4.20

(Rev. Jan. 1999)

**APPLICATION TO ADOPT,
CHANGE OR CANCEL,
AN ASSUMED CORPORATE NAME**File # **6085-529-3**Jesse White
Secretary of State
Department of Business Services
Springfield, IL 62756
Telephone (217) 782-9520
http://www.sos.state.il.usItem payment in check or money
order, payable to "Secretary of State".**FILED**

JAN 7 2000

**JESSE WHITE
SECRETARY OF STATE**This space for use by
Secretary of StateDate **01-07-00**Filing Fee **170.00**Approved: **mn**1. CORPORATE NAME PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC.2. State or Country of Incorporation: Nevada3. Date incorporated (if an Illinois corporation) or date authorized to transact business in Illinois (if a foreign corporation): 01-07 2000
(Month & Day) (Year)

(Complete No. 4 and No. 5 if adopting or changing an assumed corporate name.)

4. The corporation intends to adopt and to transact business under the assumed corporate name Of:

R NETWORK6. The right to use the assumed corporate name shall be effective from the date this application is filed by the Secretary of State until 01-01 2005, the first day of the corporation's anniversary month in the next year which is evenly divisible by five.
(Month & Day) (Year)**EXPEDITED**

(Complete No. 6 if changing or cancelling an assumed corporate name.)

JAN 7 2000

6. The corporation intends to cease transacting business under the assumed corporate name of: **SECRETARY OF STATE**

7. The undersigned corporation has caused this statement to be signed by its duly authorized officers, each of whom affirms, under penalties of perjury, that the facts stated herein are true.

Dated December 28, 1999
(Month & Day) (Year)attested by Kay Eberle
(Signature of Secretary or Assistant Secretary)Kay Eberle, Secretary

(Type or Print Name and Title)

PARAMOUNT INTERNATIONAL
TELECOMMUNICATIONS, INC.

(Exact Name of Corporation)

by Michael Eberle
(Signature of President or Vice President)Michael Eberle, President

(Type or Print Name and Title)

NOTE: The filing fee to adopt an assumed corporate name is \$20 plus \$2.50 for each month or part thereof between the date of filing this application and the date upon which the corporation may renew its use.

The fee for cancelling an assumed corporate name is \$5.00.

The fee to change an assumed name is \$25.

APPLICATION OF

Paramount International Telecommunications, Inc. d/b/a R Network

EXHIBIT 3

Financial Statements

Paramount Int'l Telecommunications, Inc**Balance Sheet**

October 31, 1999

ASSETS**Current Assets**

Operating Account	\$	<12,763.40>
Payroll Account		114.75
Investment Account		521,151.68
Accounts Receivable		878,199.00
Note Receivable		60,000.00
Employee Advances		3,139.80
Other Note Receivable		108,000.00

Total Current Assets		1,557,841.83
----------------------	--	---------------------

Property and Equipment

Furniture and Fixtures		13,515.25
Office Equipment		18,998.00
Computer Equipment		49,585.45
Telecom Equipment		319,151.00
Leasehold Improvements		4,800.00
Accum. Deprec-Furniture		<3,746.17>
Accum. Deprec-Off Eq		<3,425.13>
Accum. Deprec-Comp Eq		<23,508.67>
Accum Deprec-Telecom Equip		<139,795.91>
Accum. Deprec-L.I.		<833.29>

Total Property and Equipment		234,740.53
------------------------------	--	-------------------

Other Assets

Interco acct - cam Int'l		565,000.00
Parent Costs		35,751.19
Goodwill		701,798.38
Accum Amortization-Goodwill		<62,334.00>

Total Other Assets		1,240,215.57
--------------------	--	---------------------

Total Assets	\$	3,032,797.93
--------------	----	---------------------

LIABILITIES AND CAPITAL**Current Liabilities**

Accounts Payable	\$	109,086.14
Accrued Expenses		124,000.00
Short term loans payable		<30,000.00>
Line Of Credit		60,000.00
Interest Payable		134,603.00
Accrued Salaries Payable		17,262.78
FICA W/li Tax Payable		6,119.99
Deferred Interest Income		26,390.30
Judgements		10.00

Total Current Liabilities		447,472.21
---------------------------	--	-------------------

Long-Term Liabilities

Notes Payable		1,157,055.70
Other Long-Term Liabilities		46,983.00

Unaudited - For Management Purposes Only

Paramount Int'l Telecommunications, Inc**Balance Sheet**

October 31, 1999

Total Long-Term Liabilities		<u>1,204,038.70</u>
Total Liabilities		<u>1,651,510.91</u>
Capital		
Shareholder Distribution	<80,000.00>	
Paid-in Capital	204223.00	
Beginning Balance Equity	<16,383.76>	
Retained Earnings	<322,161.60>	
Net Income	<u>1,593,609.38</u>	
Total Capital		<u>1381387.02</u>
Total Liabilities & Capital	\$	<u><u>3,032,797.93</u></u>

For the Ten Months Ending October 31, 1999**Sales**

	1 st Quarter	2nd Quarter	Year to Date
Product Sales	3,167	0	\$ 3,167
Hotel Income	2,504,310	1,308,715	3,813,025
Mexico Income	1,301,806	3,243,740	4,545,546
FCC Income	736,672	121,552	858,224
Service Sales	1,062,475	0	1,062,475
Gross Sales	5,608,430	4,674,007	10,282,437

Other Income

Rental income	<1,600>	0	<1,600>
Interest Income	<19,282>	<15,103>	<34,385>
Other Income	<21>	<4,889>	<4,910>

Total Other Income	20,903	19,992	40,895
---------------------------	---------------	---------------	---------------

Total Sales & Other Income	5,629,333	4,693,999	10,323,332
---------------------------------------	------------------	------------------	-------------------

Cost of Sales

Cost of Sales	420,043	4,587	424,630
Hotels	868,352	772,085	1,640,437
Mexico	904,464	2,537,574	3,442,038
FCC Cost of Sales	657,000	0	657,000
Agent Commission	39,874	62,449	102,323
Depreciation	24,270	31,368	55,638
Intergate Fees	1,986,655	0	1,986,655
Cost of Sales - other	<35,125>	<31,862>	<66,987>
Rebates	172	1,214	1,386

Total Cost of Sales	4,865,705	3,377,415	8,243,120
----------------------------	------------------	------------------	------------------

Gross Profit	763,628	1,316,584	2,080,212
---------------------	----------------	------------------	------------------

Operating Expenses**Payroll & Benefits**

Management salaries	20,000	0	20,000
Administration salaries	239,044	1,338	240,382
Supervisor salaries	77,832	102,364	180,196
Clerical salaries	4,920	0	4,920
Clerical salaries	24,324	0	24,324
FICA	27,511	7,795	35,306
FUTA	412	491	903
SUTA	1,752	2,135	3,887
Health insurance	12,350	16,502	28,852
Workers Compensation	0	928	928
Training & Education	525	0	525

Total Payroll & Benefits	408,670	131,553	540,223
-------------------------------------	----------------	----------------	----------------

Other Operating Expenses

Auto Expenses	217	300	517
Tolls	13	0	13

For Management Purposes Only

Paramount Int'l Telecommunications, Inc

Income Statement

For the Ten Months Ending October 31, 1999

	1 st Quarter	2nd Quarter	Year to Date
Auto allowance	1,017	0	1,017
car rental fees --	1,201	0	1,201
Meals	239	509	748
Lodging I Hotel	2,882	0	2,882
Entertainment	184	0	184
Travel	158,895	22,258	181,153
Mileage	125	0	125
Postage-Office mail	600	1,157	1,757
Overnight mail	4,373	4,428	8,801
Ground mail	145	0	145
Rent - office	16,808	15,858	32,666
Rent - equipment	811	762	1,573
Supplies - mail	529	0	529
Supplies - office	6,277	12,347	18,624
Supplies - computer	<6,080>	3,190	<2,890>
Supplies Telecom Equip	<10,518>	0	<10,518>
Telephone - local	19	0	19
Telephone - long distance	17,251	16,241	33,492
Telephone - cellular	626	0	626
Internet fees	355	480	835
R & M - Building	0	80	80
R & M - Equipment	674	1,377	2,051
R & M - Computer	351	0	351
Insurance - Business	4,245	0	4,245
Legal fees	22,969	5,379	28,348
Accounting & other prof fees	28,940	9,597	38,537
Outside services - printing	118	1,130	1,248
Outside services - payroll	426	0	426
Outside services - other	726	<611>	115
Bad Debt Expense	10,910	0	10,910
Bank charges	1,436	1,137	2,573
Finance charges	433	0	433
Utilities	2,673	2,017	4,690
Marketing expense	3,291	855	4,146
Consulting fees	5,113	<143>	4,970
Gifts	0	95	95
Licenses / Permits	2,834	1,686	4,520
Taxes - other	58	0	58
Subcontract fees	9,000	0	9,000
Floral'	89	0	89
Total Other Operating Expenses	290,255	100,129	390,384
Total Operating Expenses	698,925	231,682	930,607

Earnings & Net Income

EBITDA	698,925	231,682	\$ 930,607
Depreciation expense	<12,208>	32,575	\$ 20,367
Interest expense	6,201	7,675	13,876
Amortization	48,482	0	48,482
Pre-Tax Income	22,228	1,044,652	1,066,880

For Management Purposes Only

Paramount Int'l Telecommunications, Inc**Income Statement**

For the Ten Months Ending October 31, 1999

	1 st Quarter	2nd Quarter	Year to Date
Net Income	22, 228	1,044,652	\$ 1,066,880

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC.
AND SUBSIDIARY

: FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 1998 AND 1997

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
DECEMBER 31, 1998 AND 1997

CONTENTS

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Balance Sheets	2 - 3
Statements of Operations	4
Statements of Stockholders' Deficiency	5
Statements of Cash Flows	6 - 7
Notes to Financial statements	8 - 15

MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
1801 CENTURY PARK EAST
SUITE 1132
LOS ANGELES, CALIFORNIA 90067

TEL: (310) 282-9131
FAX: (310) 282-9130

NEW YORK OFFICE
888 SEVENTH AVENUE
NEW YORK, NEW YORK 10108
TEL: (212) 757-6400
FAX: (212) 757-9124

INDEPENDENT AUDITORS' REPORT

**TO THE STOCKHOLDERS'
PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC.**

We have audited the accompanying balance sheets of Paramount International Telecommunications, Inc. and Subsidiary as of December 31, 1998 and 1997, and the related statements of operations, stockholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paramount International Telecommunications, Inc. and Subsidiary as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Merdinger, Fruchter, Rosen & Corso P.C.
MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.
Certified Public Accountants

Los Angeles, California
February 2, 1999

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
BALANCE SHEETS
DECEMBER 31,

	<u>1998</u>	<u>1997</u>
ASSETS		
CURRENT ASSETS		
cash	\$ 44,859	\$ 32,124
Accounts Receivable	846,912	341,437
Receivable Sales-Type Lease - Current Portion	72,000	
Prepaid Expenses	<u>4,515</u>	<u>-</u>
Total Current Assets	. 968,286	373,961
 RECEIVABLE SALES-TYPE LEASE -		
Less Current Portion	96,000	-
 EQUIPMENT AND FURNITURE, net	247,186	40,135
 EXCESS COST OVER FAIR VALUE OF NET		
ASSETS ACQUIRED, net	708,724	
 OTHER ASSETS	<u>15,750</u>	
 TOTAL ASSETS	<u>\$ 2,035,946</u>	<u>\$ 413,696</u>

The accompanying notes are an integral part of the financial statements.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
BALANCE SHEETS
DECEMBER 31,

	<u>1998</u>	<u>1997</u>
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 827,553	\$ 573,791
Notes Payable - Current Portion	204,790	
Capital Lease Obligations - Current Portion	36,038	
Notes Payable and Accrued Interest to Stockholder	1,224,622	222,946
Deferred Revenue - Current Portion	<u>38,000</u>	<u>-</u>
Total Current Liabilities	2,331,003	796,737
 NOTES PAYABLE, Less Current Portion	 105,301	
CAPITAL LEASE OBLIGATION, Less Current Portion	39,936	
DEFERRED REVENUE, Less Current Portion	<u>21,962</u>	
 Total Liabilities	 <u>2,498,202</u>	 <u>796,737</u>
 MINORITY INTEREST	 -	 -
 COMMITMENTS AND CONTINGENCIES (Note 7)	 -	 -
 STOCKHOLDERS' DEFICIENCY		
Common Stock, no par value, 25,000 shares authorized, 2,000 shares issued and outstanding	2,000	252,000
Stock Subscription Receivable	(980)	(980)
Accumulated Deficit	<u>(463,276)</u>	<u>(634,061)</u>
 Total Stockholders' Deficiency	 <u>(462,256)</u>	 <u>(383,041)</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	 <u>\$ 2,035,946</u>	 <u>\$ 413,696</u>

The accompanying notes are an integral part of the financial statements.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31,

	<u>1998</u>	<u>1997</u>
SALES	\$ 11,314,649	\$ 792,878
COST OF GOODS SOLD	<u>9,667,906</u>	<u>558,211</u>
GROSS PROFIT	1,646,743	234,667
SELLING, GENERAL AND ADMINISTRATIVE	<u>981,314</u>	<u>131,812</u>
INCOME FROM OPERATIONS	<u>665,429</u>	<u>102,855</u>
OTHER INCOME (EXPENSE)		
Other Income		4,928
Interest Expense	<u>(18,492)</u>	<u>(85,453)</u>
Total Other Income (Expense)	<u>(18,492)</u>	<u>(80,525)</u>
INCOME BEFORE TAXES	646,937	22,330
TAXES	<u> </u>	
NET INCOME	<u>\$ 646,937</u>	<u>\$ 22,330</u>

The accompanying notes are an integral part of the financial statements.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
STATEMENTS OF STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

	<u>Common Stock</u>		<u>Stock</u>	<u>Accumulated</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Subscription</u>	<u>Deficit</u>	<u>Total</u>
			<u>Receivable</u>		
Balance, January 1, 1996	2,000	\$ 252,000	\$(980)	\$(423,417)	\$(172,397)
Distributions to Stockholder	-	-	-	(232,974)	(232,974)
Net Income	-	-	-	22,330	22,330
Balance, December 31, 1997	2,000	252,000	(980)	(634,061)	(383,041)
Repurchase of FMT Shares	-	(250,000)	-	-	(250,000)
Distributions to Stockholder	-	-	-	(476,152)	(476,152)
Net Income	-	-	-	646,937	646,937
Balance, December 31, 1998	<u>2,000</u>	<u>\$ 2,000</u>	<u>\$(980)</u>	<u>\$(463,296)</u>	<u>462,276</u>

The accompanying notes are an integral part of the financial statements.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 646,937	\$ 22,330,
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities:		
Sales - Type Lease	(122,000)	-
Depreciation and Amortization Expense	94,753	7,282
(Increase) Decrease in:		
Accounts Receivable	(451,283)	(341,437)
Prepaid Expenses	(4,515)	-
Other Assets	(15,750)	-
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	112,796	405,152
Deferred Revenue	(34,038)	-
Net Cash Provided by Operating Activities	<u>226,900</u>	<u>93,327</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Collected from Receivable Sales- Type Lease	48,000	
Purchase of Equipment and Furniture	(129,303)	(19,282)
Acquisition of Call Data Clear, Inc., net of cash acquired	<u>(197,259)</u>	
Net Cash Used In Investing Activities	<u>(278,562)</u>	<u>(19,282)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Note Payable to Stockholder	467,143	105,152
Payments for Note Payable to Stockholder		
Proceeds from Notes Payable	123,000	-
Repayments of Notes Payable	(23,812)	-
Net Repayments for Line of Credit	(12,435)	-
Payments for Capital Lease Obligations	(13,347)	-
Distribution to Stockholders	<u>(476,152)</u>	<u>(149,278)</u>
-Net Cash Provided By (Used In) Financing Activities	64,397	<u>(44,126)</u>
NET INCREASE IN CASH	12,735	29,919
CASH AND CASH EQUIVALENTS -		
BEGINNING OF PERIOD	<u>32,124</u>	<u>2,205</u>
CASH AND CASH EQUIVALENTS -		
END OF PERIOD	<u>\$ 44,859</u>	<u>\$ 2 4</u>

The accompanying notes are an integral part of the financial statements.

**PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

During the years ended December 31, 1998 and 1997, the Company paid \$13,172.88 and \$0 for interest, respectively, and no income taxes.

**SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND
FINANCING TRANSACTIONS:**

During the year ended December 31, 1998, the Company sold equipment under a sales-type lease for \$210,000.

The accompanying notes are an integral part of the financial statements.

- 7 -

MERDINGER, FRUCHTER, ROSEN & CORSO, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

NOTE 1 - THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Paramount International Telecommunications, Inc. (the "Company"), A Nevada S Corporation, formed in 1996, provides telecommunication services. The Company provides its services to the lodging and pay-telephone industries in the United States, Canada and South America. The Company markets third-party manufactured PBX systems. Such products represent the primary systems used by hotels to provide telephone-related services to their guests, as well as the information necessary to bill guests for telephone calls and properly manage the telecommunications environment at the hotel. The Company bills and collects for the hotels, through a third-party service, the cost of calls initiated by the hotel guest. Also, the Company provides live-operator assistance and bii services for long-distance collect calls for the pay-telephone industry (See Note 8 - Stockholders' Equity for capital structure of the Company).

Principles of Consolidation

The December 31, 1998 balances include the accounts of the Company and its majority-owned subsidiary Call Data Clearing, Inc. ("CDC") from the date of acquisition (see Note 11) July 30, 1998, after elimination of intercompany accounts and transactions.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash, trade receivables and notes receivable. The Company places its cash with high quality financial institutions and at times may exceed the FDIC \$100,000 insurance limit. The Company provides its services in the United States, Canadian and South American lodging industry and is thus dependent upon the conditions of the hospitality economic sectors of these countries. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 1 - TEE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(continued)

Impairment of long-lived Assets

In accordance with Statement of Financial Accounting Standard ("SPAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. Impairment losses would be recognized if the carrying amounts of the assets exceed the fair value of the assets.

Inventories

Inventories consist of PBX systems and peripherals that are held for resale and charged to cost of goods sold upon installation, or for rental charged to equipment when installed and depreciated over three years. Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out basis.

Equipment and Furniture

The Company capitalizes the cost of all significant equipment and furniture additions including equipment purchased by the Company and installed at customer locations under rental agreements. Depreciation is computed over the estimated useful life of the asset or the terms of the lease for leasehold improvements, whichever is shorter, on a straight-line basis, as follows:

Telecommunication	3 years
Computers	5 years
Furniture and Fixtures	5 - 7 years
Leasehold Improvements	10 years

Sales-Type Leases

A portion of the Company's revenue for the year ended December 31, 1998 has been generated using a sales-type lease. The Company sold equipment to a customer under a sales-type lease to be paid over a three-year period. Because the present value (computed at the rate implicit in the lease) of the minimum payments under this sales-type lease equals or exceeds 90 percent of the fair market value of the equipment and/or the length of the lease exceeds 75 percent of the estimated economic life of the equipment, the Company recognized the net effect of this transaction as a sale as required by generally accepted accounting principles.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 1 - THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
 (continued)

Minority Interest

The December 31, 1998 financial statements do not reflect a minority interest liability as CDC, on a stand-alone basis has a stockholders' deficiency, and the consolidated statement of operations for the year ended December 31, 1998 does not reflect a minority interest's share of CDC's losses, as the related accrual would result in the Company's recordation of a minority interest receivable.

Revenue Recognition

The Company bills and collects, through a third party service, the cost of calls initiated by the hotel guests. The Company recognizes revenue each month based on the gross proceeds to be collected which are net of contractual allowances for uncollectable fees charged by the third-party billing agency. Product sales are recognized upon delivery of product to the customer.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company has elected to be taxed under the provisions of Sub Chapter-S of the Internal Revenue Code. Under the provisions, the Company does not pay federal corporate income taxes, but is subject to a 1.5% California franchise tax.

NOTE 2 - RECEIVABLE SALES-TYPE LEASE

In May 1998, the Company sold equipment to a customer under a sales-type lease to be paid over a three year period. Future minimum lease payments under the lease are as follows:

Year ending December 31,:	
1999	\$ 72,000
2000	72,000
2001	<u>24,000</u>
Net minimum lease payments	168,000
Less: Current Portion	(72,000)
Long-Term Portion	<u>\$ 96,000</u>

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 3 - EQUIPMENT AND FURNITURE

The cost of equipment and furniture consisted of the following as of December 31,:

	<u>1998</u>	<u>1997</u>
Teleco	\$ 234,297	\$ 8,260
Computers	46,594	33,471
Furniture and Fixtures	32,263	8,137
Leasehold Improvements	<u>4,800</u>	<u> </u>
	317,954	~49,868
Accumulated Depreciation	<u>70,168</u>	<u>9,733</u>
	<u>\$ 247,086</u>	<u>1 3 5</u>

Depreciation expense was \$61,035 and \$7,282 for 1998 and 1997, respectively.

NOTE 4 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31,:

	<u>1998</u>	<u>1997</u>
Trade Payable and Accruals	\$ 827,553	\$ 324,352
Distribution to Stockholder		150,194
Interest Payable to Stockholder		<u>99,245</u>
	<u>\$ 827,553</u>	<u>\$ 573,791</u>

NOTE 5 - NOTES PAYABLE

Notes payable consisted of the following as of December 31,:

	<u>1998</u>	<u>1997</u>
Note payable - Bank 9.25% per annum, secured by equipment under sales-type lease, with monthly principal and interest payments of \$3,902, due April 2001.	\$ 98,188	\$ -
Note payable acquisition - non-interest bearing due January 15, 1999.	146,903	

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 5 - NOTEPAYABLE(continued)

Note payable acquisition - 6.0 %
per annum with interest payable
on August 15, 1999 and starting
August 1999 monthly principal
payments of \$3,611 due in
February 2001.

65.000

Total

310,091

Less: Current Portion

(204.790)

Long-Term Portion

\$ 105.301

\$ -

Required principal payments under note payable-are as follows:

For the year ending December 31,
1999
2000
2001
Total

\$ 203,330

99,917

6,844

\$ 310,091

NOTE 6 - NOTE PAYABLE STOCKHOLDER

A stockholder of the Company has made advances to fund operations of the Company. As of December 31, 1998 and 1997, the outstanding balance was \$1,224,622 (including principal and interest) and \$222,946, respectfully. The note accrues interest at 10% per annum, with interest only payments of \$10,206 starting October 1998 through September 1999, at which time all unpaid interest and principal are due and payable.

The Stock Purchase Agreement (See Note 12 - Subsequent Event) requires the Company to satisfy the principal and interest by May 27, 1999. The Buyer, under the Stock Purchase Agreement has guaranteed the Company's payment of this debt.

**PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

NOTE 7 - COMMITMENTS AND CONTINGENCIES

The Company leases its corporate office under a noncancelable operating lease with a stockholder Of the Company, which expires on November 1, 1998. Also, the Company sub-leases space to a third party on a month-to-month basis. The Company also leases telecommunication equipment under non-cancelable capital lease arrangements. Net rent expense for December 31, 1998 and 1997 was approximately \$32,874 and \$8,754, respectfully.

Future minimum lease payments under noncancelable capital leases at December 31, 1998 are as follows:

Years Ending December 31,:	
1999	\$ 46,404
2000	37,329
2001	<u>5,985</u>
	89,718
Less: Amount Representing Interest	<u>(13,744)</u>
	75,974
Less: Current Portion	<u>(36,098)</u>
Long-Term Portion	<u>\$ 9,936</u>

NOTE 8 - STOCKHOLDERS' EQUITY

Paramount Marketing & Telecommunications, Inc. ("PMT") was incorporated in the State of California in March 1996. PMT issued 1,000 shares of its no par value common stock, of which 180 were purchased by Stockholders ("Stockholders A") for \$250,000 and the remaining five stockholder! received 820 shares in aggregate as founders' shares for a total of seven stockholders. In January 1997, Stockholders A purchased from three of the founding stockholders 620 shares of PMT common stock leaving four stockholders of record. In 1998, the Company purchased 800 shares of PMT from Stockholder A by increasing the stockholders note payable for \$250,000.

In October 1996, the four stockholders of PMT formed Paramount International Telecommunications, Inc. ("PIT"), a Nevada Corporation. PIT issued 2,000 shares of its no par value common stock for \$100 a share.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 8 - STOCKHOLDERS' EQUITY (continued)

For the year ended December 31, 1998 through the ten months ended October 30, 1997, the Company's operations were transacted through PMT and subsequent to October 30, 1997, the Company's operations were transacted through PIT. The accompanying financial statements and stockholders' equity are for the combined companies. However, the accompanying financial statements are presented as PIT given that the operations of PIT are the continuation of PMT's operations.

NOTE 9 - SALES

For the year ended December 31, 1998, the company had two customers whose sales and accounts receivable represented approximately \$8,500,000 and \$577,000, respectively, of total sales and accounts receivable.

NOTE 10 - INCOME TAXES

For the years ended December 31, 1998 and 1997, the Company had no franchise taxes because of net loss carryforwards. There are no significant temporary differences between the Company's tax and franchise bases except for net loss carryforwards for which a 100% allowance has been provided because management has determined that the Company may not realize all or a portion of this deferred tax asset.

NOTE 11 - ACQUISITION

On July 31, 1998, the Company acquired 8.5% (in 1999, the Company acquired the remaining 15%) of the outstanding common stock of Call Data Clearing, Inc. in exchange for \$765,000. The acquisition was accounted for by the purchase method of accounting; accordingly, the purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair values at the date of acquisition. The excess of the purchase price over the estimated fair value of net assets acquired of \$831,155 has been recorded as excess cost over fair value of net assets acquired, which is being amortized over ten years.

PARAMOUNT INTERNATIONAL TELECOMMUNICATIONS, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997

NOTE 11 - ACQUISITION (continued)

The estimated fair value of assets acquired and liabilities assumed is summarized as follows:

cash	\$ 353,678
Accounts Receivable	54,192
Inventories	55,177
Equipment and Furniture	82,693.
Excess cost over Fair Value of Net Assets Acquired	831,155
Accounts Payable and Other Liabilities	<u>(611,895)</u>
Purchase Price	<u>\$ 765,000</u>

The following table presents the unaudited proforma condensed statement of operations for the year ended December 31, 1998 and reflects the results of operations of the Company as if the acquisitions of CDC had been effective January 1, 1998. The proforma amounts are not necessarily indicative of the combined results of operations had the acquisition been effective as of that date, or of the anticipated results of operations, due to cost reductions and operating efficiencies that are expected as a result of the acquisition.

	December 31, <u>1998</u> (unaudited)
Net Sales	3 12,979,434
Gross Profit	\$ 1,802,313
Selling, General and Administrative Expenses	\$ 1,171,065
Net Income	\$ 609,572

NOTE 12 - SUBSEQUENT EVENTS

On February 26, 1999, the shareholders of the Company entered into an agreement to sell all of the issued and outstanding shares of the Company's common stock in exchange for cash and Convertible Preferred Stock of a publicly held company.